



Target's First Year in Canada: Boom or Bust?

Description

When **Target Corp** (NYSE:TGE) first announced that it would be buying Zellers from **Hudson's Bay** (TSX:HBC) it sent shivers down the spines of retailers and brought in a sense of giddiness to consumers. However once Target Canada stores began to open, it appeared that both groups may have misjudged the "Target effect", as prices were not lower and the products available were less than expected.

These two issues among others have plagued Target's expansion into Canada, which many assumed would be an easy win for the number two U.S. retailer. Now the numbers are in and they are not what most would have expected a year and a half ago.

Total year-end revenues came in at \$1.3 billion, a drop in the bucket compared to **Wal-Mart** (NYSE:WMT) or **Loblaw** (TSX:L). Despite Canadian revenues of \$1.3 billion, Target posted an operating loss of \$941 million and an operating margin of 14.9%. That was a disappointing result even after expansion and labour costs to open the over 200 stores are considered.

Even in the fourth quarter, when Target expected to post a modest profit, it ended up losing \$329 million on \$623 million in sales. Gross margins fell to 4.4% in the quarter as inventory issues forced the company to clear out shelves at a discount.

Again the public perception of "it's not the same as down south", along with higher than expected prices and early inventory issues, [failed to lure people in the door](#).

2014 losses looming

As a stark new reality begins to emerge for Target Canada, the company declared in its 2014 outlook that it is expecting a loss of \$314 million (EBITDA) in 2014. However the company is expecting sales to double to \$2.6 billion as most of its stores will be open for the full year. Inventory issues have been apparently resolved, and operating costs will fall from \$1 billion to \$400 million allowing margins to rise to 30%.

Foolish bottom line

It hasn't been a smooth ride for Target Canada and the company is left with many choices to make to lure customers back to its stores. One of these was the decision "to invest more in marketing food, household goods, beauty and health-care items, which tend to be must-have products that bring customers to stores more often." There is also discussion about bringing its PFresh fruit and vegetable department into Canada.

Another possibility that has garnered the attention of analysts is that Target has begun to more heavily discount to attract Canadian consumers. If this does become a new trend at the company, even a short term one, it could finally spark the price war retailers were anticipating from the beginning. This would be a war that Target could survive with U.S. revenues bolstering it, hoping to outlast its Canadian competition.

If this type of desperation does set in at Target, it could mark a rough time for investors in the retail sector, as lines are drawn and margins crumble.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:TGT (Target Corporation)
2. NYSE:WMT (Wal-Mart Stores Inc.)
3. TSX:L (Loblaw Companies Limited)

Category

1. Investing

Date

2025/08/27

Date Created

2014/02/27

Author

cameronconway

default watermark